

*Office of the State Auditor*  
*Division of State Audit*

DIVISION OF  
EMERGENCY MANAGEMENT  
Bismarck, North Dakota

Audit Report for the  
Two-year period ended June 30, 2002  
Client Code 512

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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June 19, 2003

Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Doug Friez, Director

We are pleased to submit this audit of the Division of Emergency Management for the two-year period ended June 30, 2002. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Michael Schmitcke. Al Stroklund and Jennifer Feigitsch were the staff auditors. Ron Tolstad, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2243. We wish to express our appreciation to Director Friez and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The North Dakota Division of Emergency Management is responsible for providing a process, through which the state of North Dakota prepares for emergencies and disasters, responds to them, recovers from them, rebuilds, and mitigates their future effects. The Division of Emergency Management performs their responsibilities through the coordinated efforts of its eight interdepartmental action teams.

## **RESPONSES TO LAFRC REQUESTS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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1. *Were expenditures made in accordance with legislative appropriations and other state fiscal requirements and restrictions?*

Yes.

2. *Were revenues accounted for properly?*

Yes.

3. *Were there adequate financial controls and procedures?*

Other than our finding addressing "inadequate controls surrounding recording of expenditures" (see page 20), we determined financial controls were adequate.

4. *Was internal control adequate and functioning effectively?*

Yes.

5. *Do financial records and reports reconcile with state fiscal offices?*

Yes.

6. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Other than our findings addressing "taking of an annual physical inventory" (see page 22), the Division of Emergency Management was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

7. *Was there any indication of fraud or dishonesty?*

No.

8. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

9. *Has action been taken on findings and recommendations included in prior audit reports?*

There were no recommendations included in the prior audit report.

10. *Were all activities of the agency encompassed within appropriations of specific amounts?*

Yes.

11. *Has the agency or institution implemented the Statewide Accounting and Management Information System (SAMIS), including the cost allocation system?*

Yes. The Division of Emergency Management is using the SAMIS accounting system, but is not using the cost allocation system because the federal programs administered by the Division of Emergency Management do not allow indirect charges.

12. *Has the agency developed budgets of actual anticipated expenditures and revenues on at least a quarterly basis and compared (on at least a quarterly basis) actual expenditures and revenues on the accrual basis to budgeted expenditures and revenues?*

Yes.

## ***Background Information***

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Doug Friez, Director of the North Dakota Division of Emergency Management was appointed as North Dakota's Homeland Security Coordinator on October 4, 2001.

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The vision of the North Dakota Division of Emergency Management is to keep our state safe and secure from natural, manmade, and technological emergencies that destroy life, property, and the environment; and, in which citizens, government, volunteers, and business/industry have the resources and knowledge to reduce the risks that mitigate the impacts of disasters.

The Division of Emergency Management is established in the Office of the Adjutant General. Doug Friez, Director, is appointed by the Adjutant General of the North Dakota National Guard to head the North Dakota Division of Emergency Management.

North Dakota has experienced floods, blizzards, fires, tornadoes, and a number of hazardous materials spills. The Division of Emergency Management is responsible for providing emergency planning, training, and program assistance to 53 counties and their cities, as well as tribal governments; maintaining statewide disaster preparedness education programs; ensuring that plans, emergency services, and first responders are exercised annually; managing a hazardous chemical preparedness and response program; and providing a center for coordinated state-level hazard emergency operations. They also prepare and maintain a state multi-hazard emergency operations plan that provides for: alerting and informing the public; assessing the situation; activating volunteers; supporting emergency response; and, restoring and recovering.

On October 4, 2001, Governor John Hoeven designated Doug Friez, State Director of the North Dakota Division of Emergency Management, as North Dakota's Homeland Security Coordinator. Based on this designation, the statewide emergency management infrastructure has been adapted to enhance homeland security through awareness and coordinated preparedness, prevention, and response.

Through its state office in Bismarck, the Division of Emergency Management provides policy direction and funding for a wide array of disaster programs to help North Dakota counties, cities, and tribal governments alike. The Division of Emergency Management administers its disaster programs through nine action teams within the Division. They are as follows:

- The Public Information Action Team is responsible for making timely and accurate information available to the news media and the public so they can understand the facts about emergencies and disaster situations.
- The Training and Exercise Action Team is responsible for initiating, coordinating, and delivering emergency management training and exercise opportunities to emergency management personnel at all levels of government, volunteer agencies, the private sector, and North Dakota citizens.
- The Administration and Human Resources Action Team is responsible for providing the organizational base for management and administration of program activities.
- The Homeland Security Strategy Action Team enhances homeland security through awareness and coordinated preparation, prevention, and response to reduce North Dakota's vulnerability to terrorism.
- The Pre-Disaster Mitigation Action Team (PDM) provides technical support to local governments to develop a long-term strategy for operational and mitigation planning. The Team supports local emergency management organizations to effectively deliver preparedness, response, recovery, and mitigation activities to the community.
- The Hazard Mitigation Grant Program Action Team coordinates the state's hazard mitigation strategy. This is done in conjunction with the North Dakota Multi-Hazard Mitigation Plan. The team also administers the Hazard Mitigation Grant Program.
- The State Planning Action Team ensures the multi-hazard State Emergency Operations Plan (SEOP) coordinates efforts by federal, state, local, and tribal governments, as well as volunteer agencies and the private sector in the management of emergencies or disasters to save lives and to protect property and the environment.
- The Operations Action Team is responsible for coordinating state efforts to support emergency and disaster response based on the North Dakota Emergency Operations Plan.



- The Public Assistance Action Team provides and manages grants to state, local, and tribal governments, along with eligible private non-profit entities for repairs to public infrastructure damage as a direct result of a major disaster or emergency declaration by the President. A fundamental principle of the program is to ensure that everyone shares a common understanding of the program policies and procedures.

More information about the agency can be obtained from the Division of Emergency Management's home page at:  
<http://www.state.nd.us/dem/>

# *Audit Objectives, Scope, and Methodology*

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## Audit Objectives

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The objectives of this audit of the Division of Emergency Management for the two-year period ended June 30, 2002 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the Division of Emergency Management's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Division of Emergency Management, and are they in compliance with these laws?
3. Are there areas of the Division of Emergency Management's operations where we can help to improve efficiency or effectiveness?

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## Audit Scope

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This audit of the Division of Emergency Management for the two-year period ended June 30, 2002 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

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## Audit Methodology

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- Prepared condensed financial statements from the data used in the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures and journal vouchers.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed agency written plans and applicable manuals.
- Reviewed the state disaster plan.
- Reviewed the state Hazardous Chemicals Preparedness and Response Program.
- Observed agency processes and procedures.
- Reviewed North Dakota Century Code chapter 37-17.1 and the 1999 and 2001 Session Laws.
- Reviewed industry best practices through the use of Internet searches.
- Searched for recent studies or reports relating to the Division of Emergency Management.

## ***Management's Discussion and Analysis***

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The accompanying financial statements have been prepared in a condensed form to present the Division of Emergency Management's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. All fund types and account groups are condensed and reported in one column. Accordingly, the accompanying summary financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by the management of the Division of Emergency Management. We have applied certain limited procedures, which consisted primarily of management inquiries regarding the methods of measurement and presentation of this supplementary information, to ensure it does not conflict with the knowledge we gained as part of our audit.

For the two-year period June 30, 2002, operations of the Division of Emergency Management were primarily supported by federal funds, as well as special and general funds.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of federal funds, as well as loan proceeds from the Bank of North Dakota to help cover matching requirements of federal grants, and license and permit fees to hold hazardous chemicals. License and permit fees remained fairly constant while federal revenue and Bank of North Dakota loan proceeds decreased significantly from June 30, 2001 as compared to June 30, 2002. The decrease can be attributed to the decreasing number and size of disasters that occurred throughout the audit period and closeouts of disasters that occurred prior to the audit period. Total revenues were \$50,050,734 for the year ended June 30, 2002, as compared to \$67,038,814 for the year ended June 30, 2001.

Total expenditures for the Division of Emergency Management were \$55,944,519 for the year ended June 30, 2002, as compared to \$72,565,736 for the prior year. The decrease in total expenditures for the audited period was also due to the decreasing number and size of disasters that occurred throughout the audit period and closeouts of disasters that occurred prior to the audit period.

The decrease in Transfers Out relates to payments to state agencies and state colleges for payments made under disaster programs.

The Division of Emergency Management does not pay disaster interest expense due on the loans from the Bank of North Dakota until the Legislature approves a deficiency appropriation. As a result, interest on loans from the Bank of North Dakota is paid once a biennium.

The fund equity deficit of \$875,727 is a result of the deficit in the Emergency Management Fund caused by expenditures exceeding the federal revenues received. This deficit is initially paid for with loan proceeds received from the Bank of North Dakota. At the end of each biennium the legislature will approve a deficiency appropriation to pay back the Bank of North Dakota.

### ***ANALYSIS OF SIGNIFICANT CHANGES IN OPERATIONS***

Emergency Management on local, state, and federal levels changed significantly during the past biennium with the advent of homeland security initiatives. Since the terrorist attacks of September 11, 2001, North Dakota has adapted the existing emergency management structure to enhance homeland security through awareness and coordinated preparedness, prevention, and response.

On October 4, 2001, Governor John Hoeven designated Doug Friez, State Director of DEM, as the state's Homeland Security Coordinator. Within this existing emergency management infrastructure, the state maintains a 10-annex, multi-hazard Emergency Operations Plan (EOP), that has provided the parameters for North Dakota's response to the repercussions of the terrorist attacks of September 11, 2001, and subsequent homeland security events and issues.

The agency provided homeland security guidance to North Dakotans as a private, public, and an individual partnership to "Watch the Neighborhood," emphasizing the necessity to "lock the doors" and report any suspicious activities in neighborhoods; schools; workplaces; high-profile, heavily-attended events; and key facilities. North Dakota, on state and local levels, has evaluated and adjusted training and operational initiatives; incorporated aviation and border security measures; heightened security of key facilities; increased intelligence gathering and sharing among law enforcement, military and public agencies; enhanced direct communications with federal counterparts; and launched public information campaigns designed to empower individuals and organizations at the local level.

This emphasis on homeland security coincided with continuing efforts to mitigate, prepare, respond, and recover from other potential emergencies and disasters. Among the 100-plus incidents addressed each year by the agency, DEM coordinated the state response to a 31-car Canadian Pacific Railway train derailment on January 18, 2002. Eleven train cars carrying anhydrous ammonia ruptured, forming a vapor cloud impacting portions of the city of Minot and surrounding areas. In addition, the release resulted in the contamination of nearby soil, river ice, and groundwater. DEM staff worked with local, state, federal, and private organizations to support local efforts to respond to the emergency. State agencies providing support included the Governor's Office, State Radio Communications, Department of Health, State Fire Marshal's Office, State Highway Patrol, Department of Human Services, Department of Transportation, State Veterinarian's Office, University System, and the Division of Emergency Management.

During the summer, a series of severe storms moved across the state causing extensive damage. In September 2002, the state of North Dakota received a Major Presidential Disaster Declaration in 2002 for severe summer storms and flooding for the Three Affiliated Tribes of the Fort Berthold Indian Reservation and the counties of Grand Forks, Pembina, Stutsman, Traill, and Walsh.

During the two-year period, the Division of Emergency Management staff supported county and city governments in the first major revision of Local Emergency Operations Plans in 15 years. The team has worked closely with local governments to complete Multi-Hazard Mitigation Plans to comply with the federal Disaster Mitigation Act of 2002. These plans represent the backbone of preparedness, prevention, and response at the local level.

The Division of Emergency Management is helping to coordinate statewide Continuum of Government and Continuity of Operations Plan efforts. The project purpose is to develop an integrated, comprehensive, and secure system to ensure that critical governmental services continue under all conditions and circumstances.

The Division of Emergency Management joined the state NDGOV network to help ensure connectivity with other state agencies during an emergency or disaster. The Division also implemented video streaming and information display systems within the State Emergency Operations Center (EOC).

Agency personnel closed out 44 Hazard Mitigation Grant Program (HMGP) projects. Noteworthy among the closeouts was the Churchs Ferry acquisition project, in which 98 percent of homes in the flood-threatened community were acquired. Five structures on

the Turtle Mountain Band of Chippewa Indian Reservation were relocated under the program. The project represents the first tribal HMGP application to North Dakota and Region VIII of the federal Emergency Management Agency, Department of Homeland Security.

Through the Public Assistance Program, 215 large projects were closed out for seven Major Presidential Disaster Declarations. Staff conducted 67 small project inspections.

The Division of Emergency Management's multi-faceted, multi-hazard training program was made available to state, tribal, and local government representatives in several categories: centralized training; customized training; professional skills training; independent study; the Emergency Management Institute (EMI); one-on-one training; national and regional training; and the U.S. Department of Justice (DOJ) training and hazard awareness training.

In the two-year period the Division of Emergency Management conducted or facilitated 33 centralized courses, 36 customized courses, 33 professional skills courses, 153 independent course completions, 972 one-on-one training sessions, and 36 national and regional training events. Additionally, the Division of Emergency Management facilitated the participation of 12 individuals in EMI courses and 185 participants in resident and non-resident DOJ Homeland Security training courses. The hazard awareness training course originally was the "Hazardous Materials Awareness Course." With the advent of homeland security, the Division of Emergency Management completed a project with the Fire Marshal's Office and included the weapons of mass destruction elements into the course. The course is now titled "Weapons of Mass Destruction/Hazardous Materials Awareness Course."

In addition to the training of first responders and emergency operations and task coordinators, the Division of Emergency Management facilitated the Multi-Hazard Planning for Schools program with the North Dakota Leadership and Educational Administrative Development Center, and the Community Emergency Response Team (CERT) program with the League of Cities. The Multi-Hazard Planning for Schools program provides training to school staff on how to plan for the school's identified hazards and how to best protect the children, staff, and facilities. The CERT program is designed to teach citizens how to help themselves, families, and neighbors during a disaster. The program began early in 2003 with the formation of the state Citizen Corps Council. Citizen Corps Councils are being formed throughout the state with CERT's being organized and trained shortly thereafter.

The agency also facilitates a complex statewide emergency management exercise program, which is a series of progressive exercises. During the two-year period, DEM provided support to county and tribal governments during 115 tabletop, 59 functional, and 32 full-scale exercises.

Each spring and late fall the agency conducts a severe weather awareness campaign. The severe summer awareness campaign is combined with an exercise of the weather warning systems. The National Weather Service initiates a simulated tornado warning, which is distributed through warning systems throughout the state.

As evidenced by this report, the Division of Emergency Management has been achieving its mission on a day-to-day basis in dealing with emergency operations, disaster recovery, training, exercising, planning and now homeland security.

## *Condensed Financial Statements*

### **STATEMENT OF ASSETS, LIABILITIES, AND FUND EQUITY**

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
<b><u>Assets and Other Debits:</u></b>		
Cash and Cash Equivalents	\$ 240,271	\$ 176,958
Accounts Receivable	9,050	325
Due From State Other Funds	1,822,571	17,384
Intergovernmental Receivable	4,949,184	7,201,502
Fixed Assets	80,270	192,727
Amount to be Provided for Retirement of Long-Term Debt	94,591	89,817
<b>Total Assets and Other Debits</b>	<u>\$ 7,195,937</u>	<u>\$ 7,678,713</u>
<b><u>Liabilities:</u></b>		
Accounts Payable	\$ 5,649,038	\$ 3,560,862
Due to Other State Funds	2,133,359	3,616,010
Accrued Payroll	114,406	109,767
Compensated Absences Payable	94,591	89,817
<b>Total Liabilities</b>	<u>\$ 7,991,394</u>	<u>\$ 7,376,456</u>
<b><u>Equity and Other Credits:</u></b>		
Investment in General Fixed Assets	\$ 80,270	\$ 192,727
Fund Equity - Unreserved	(875,727)	109,530
<b>Total Equity and Other Credits</b>	<u>\$ (795,457)</u>	<u>\$ 302,257</u>
<b>Total Liabilities, Equity, and Other Credits</b>	<u>\$ 7,195,937</u>	<u>\$ 7,678,713</u>



## STATEMENT OF REVENUES AND EXPENDITURES

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$ 48,164,409	\$ 62,150,610
Loan Proceeds	1,775,000	4,769,454
Licenses and Permits	108,375	116,125
Miscellaneous	2,950	2,625
<b>Total Revenues and Other Sources</b>	<u>\$ 50,050,734</u>	<u>\$ 67,038,814</u>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 1,371,149	\$ 1,319,856
Grants, Benefits, and Claims	49,789,311	44,521,359
Equipment	4,734	157,026
Major Operating Expenditures:		
Data Processing	71,664	22,610
Telecommunications – ITD	28,808	32,150
Travel	187,439	183,899
Disaster Interest Expense		821,370
Rent of Building	43,950	62,981
Dues and Professional Development	22,191	20,240
Professional Services	106,109	74,079
Other Operating Expenditures	84,112	113,267
Transfers Out	4,235,052	25,236,899
<b>Total Expenditures and Other Uses</b>	<u>\$ 55,944,519</u>	<u>\$ 72,565,736</u>

## STATEMENT OF APPROPRIATIONS

For The Year Ended June 30, 2002

	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
<b>Expenditures by Line Item:</b>					
Salaries and Benefits	\$ 2,611,942	\$ 153,646	\$ 2,765,588	\$ 1,371,149	\$ 1,394,439
Operating Expenses	923,692	2,719,099	3,642,791	2,491,274	1,151,517
Equipment	156,400	20,200	176,600	4,734	171,866
Grants	67,141,954	16,285,746	83,427,700	53,929,892	29,497,808
<b>Totals</b>	<u>\$ 70,833,988</u>	<u>\$ 19,178,691</u>	<u>\$ 90,012,679</u>	<u>\$ 57,797,049</u>	<u>\$ 32,215,630</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 963,160	\$ 2,686,117	\$ 3,649,277	\$ 3,133,957	\$ 515,320
Other Funds	69,870,828	16,492,574	86,363,402	54,663,092	31,700,310
<b>Totals</b>	<u>\$ 70,833,988</u>	<u>\$ 19,178,691</u>	<u>\$ 90,012,679</u>	<u>\$ 57,797,049</u>	<u>\$ 32,215,630</u>

### Appropriation Adjustments:

Increased spending authority was granted for Salaries and Benefits (\$136,800), Operating (\$27,360), Equipment (\$15,000), and Grants (\$14,662,500) to accept federal funds and a Bank of North Dakota loan for expenses associated with the spring of 2001 flooding.

Increased spending authority was granted for Grants (\$777,000) to accept federal funds from the United States Department of Justice State Domestic Preparedness Equipment Program for equipment grants.

Salaries and Benefits had \$9,996 of additional appropriation authority granted by OMB per House Bill 1015, section 6 of the 2001 Legislative Session, which provided for market equity compensation for classified state employees.

Increased spending authority was granted for Salaries and Benefits (\$6,850), Operating (\$9,920), Equipment (\$5,200), and Grants (\$846,246) to accept federal funds from the federal Emergency Management Association and the Bank of North Dakota for expenditures associated with severe weather in November of 2000.

A deficiency appropriation was granted for Operating (\$2,681,819) to pay a portion of the balance of a loan request from the Bank of North Dakota.

**For The Biennium Ended June 30, 2001**

	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
<b>Expenditures by Line Item:</b>					
Salaries and Benefits	\$ 2,298,200	\$ 1,229,303	\$ 3,527,503	\$ 2,611,391	\$ 916,112
Operating Expenses	931,852	15,288,431	16,220,283	13,248,399	2,971,884
Equipment	186,653	57,155	243,808	163,448	80,360
Grants	62,738,332	134,661,310	197,399,642	154,200,300	43,199,342
<b>Totals</b>	<u>\$ 66,155,037</u>	<u>\$ 151,236,199</u>	<u>\$ 217,391,236</u>	<u>\$ 170,223,538</u>	<u>\$ 47,167,698</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 924,090	\$ 15,002,557	\$ 15,926,647	\$ 13,142,227	\$ 2,784,420
Other Funds	65,230,947	136,233,642	201,464,589	157,081,311	44,383,278
<b>Totals</b>	<u>\$ 66,155,037</u>	<u>\$ 151,236,199</u>	<u>\$ 217,391,236</u>	<u>\$ 170,223,538</u>	<u>\$ 47,167,698</u>

**Appropriation Adjustments:**

Increased spending authority was granted for Salaries and Benefits (\$50,000), Operating (\$35,000), and Grants (\$325,000) to accept federal funds from the United States Department of Justice, Domestic Preparedness Equipment Program, to develop a state based needs assessment and a three-year statewide domestic preparedness strategy to plan for and respond to domestic acts of terrorism.

Increased spending authority was granted for Salaries and Benefits (\$14,536) and Operating (\$35,464) to accept federal funds for a grant to inform the public about Y2K and to take steps to ensure disruptions do not turn into disasters.

Increased spending authority was granted for Salaries and Benefits (\$575,000), Operating (\$30,000), Equipment (\$15,000), and Grants (\$45,350,000) to accept federal funds for the spring of 1999 flood disaster.

A deficiency appropriation was granted for Operating (\$15,001,277) to pay a portion of the balance of loan requests from the Bank of North Dakota.

Salaries and Benefits had \$8,228 of additional appropriation authority granted by OMB per Senate Bill 2015 sections 10 and 11 of the 1999 legislative session for market equity compensation for classified state employees.

Increased spending authority was granted for Salaries and Benefits (\$375,300), Operating (\$156,540), Equipment (\$37,155), and Grants (\$39,500,000) to accept federal funds from the federal Emergency Management Agency for the expenses associated with flood disasters in 1996 – 1999.

Increased spending authority was granted for Salaries and Benefits (\$206,238), Operating (\$30,150), Equipment (\$5,000), and Grants (\$49,486,310) to accept funds from the federal Emergency Management Agency and a Bank of North Dakota loan for expenses associated with the flooding during the spring and summer of 2000.

## *Internal Control*

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In our audit for the two-year period ended June 30, 2002, we identified the following areas of the Division of Emergency Management's internal control as being the most important:

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### *Internal Controls Subjected To Testing*

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls relating to payroll procedures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the Statewide Accounting and Management Information System (SAMIS).

We gained an understanding of the management controls surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We noted certain matters involving the internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Division of Emergency Management's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. The reportable condition is described below. We also noted other matters involving management controls that we have reported to management of the Division of Emergency Management in a separate letter dated June 19, 2003.

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Finding 02-1

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**INADEQUATE CONTROLS SURROUNDING RECORDING OF EXPENDITURES**

During our testing of expenditures we noted the Division of Emergency Management was not applying expenditures to the proper accounting period and was not recording expenditures consistently between accounting periods. In our test of these expenditures, 16 of the 22 expenditures tested out of a population of 285 should have been recorded in the previous fiscal year. GASB 33 guidance states that expenditures for grants are recorded in the time period when the grant has been approved and qualifying expenditures have been incurred.

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend the Division of Emergency Management record expenditures in the proper accounting period.

***Division of Emergency Management Response:***

***The North Dakota Division of Emergency Management agrees with the recommendation and intends to comply with the recommendation.***

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2002, we identified and tested the Division of Emergency Management's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### *Legislative Intent Subjected To Testing*

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- Receipts and disbursements from the state Hazardous Chemicals Fund (378) according to statute (NDCC section 37-17.1-07.1).
- Claims relating to the 1997 Flood Disaster in accordance with Senate Bill 2016, section 4 of the 1999 Session Laws.
- Preparation of a State Disaster Plan according to statute (NDCC section 37-17.1-06, section 2).
- A list of cities with their own emergency management organization according to statute (NDCC section 37-17.1-07, section 3).
- Loans received from the Bank of North Dakota according to statute (NDCC section 37-17.1-1-23).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations (1999 and 2001 North Dakota Session Laws chapter 38 and chapter 16, respectively).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Compliance with information systems related legislation including appointment of an information technology coordinator, and a properly approved information technology plan.

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. The finding is described below.



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## **TAKING OF AN ANNUAL PHYSICAL INVENTORY**

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### Finding 02-2

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The Division of Emergency Management did not take an annual physical inventory of its fixed assets for either fiscal year 2001 or 2002.

Section 44-04-07 of the North Dakota Century Code (NDCC) requires that an annual physical inventory of all property be conducted, and that the record of inventory be maintained, with the certification of the individual taking the inventory, as to the correctness of the inventory. As a result, the Division of Emergency Management is not in compliance with NDCC.

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### Audit Recommendation and Agency Response

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#### **Recommendation:**

We recommend the Division of Emergency Management conduct an annual physical inventory and maintain records of the physical inventory as required by NDCC.

#### ***Division of Emergency Management Response:***

***The North Dakota Division of Emergency Management agrees with the recommendation and intends to comply with the recommendation.***

## *Operations*

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This audit did not identify areas of the Division of Emergency Management's operations where it was practical, at this time, to help improve efficiency or effectiveness.